



U.S. Department of Agriculture
Office of Inspector General
Midwest Region
Audit Report

IMPLEMENTATION OF THE
GOVERNMENT PERFORMANCE
AND RESULTS ACT
IN RURAL DEVELOPMENT
FISCAL YEAR 1999
WASHINGTON, D.C.



Report No.
50601-2-CH
MARCH 2001



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: March 30, 2001

REPLY TO

ATTN OF: 50601-0002-Ch

SUBJECT: Implementation of the Government Performance and Results Act in
Rural Development – Fiscal Year 1999

TO: R. Mack Gray
Acting Deputy Under Secretary
Natural Resources and Environment
and Rural Development

This report presents the results of our audit of the implementation of the Government Performance and Results Act in Rural Development in fiscal year 1999. Rural Development's response to the official draft report, dated March 28, 2001, is included in its entirety as exhibit D, with excerpts and the Office of Inspector General's position incorporated into the Findings and Recommendations section of the report.

Based on the information contained in the response, we have reached management decisions on Recommendations Nos. 3, 8, and 9. Please follow your agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer.

We have not yet reached management decisions on Recommendations Nos. 1, 2, 4, 5, 6, and 7. Management decisions can be reached when RD provides the additional information outlined in the OIG Position sections of the report.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing corrective actions you plan to take and the timeframes to address these recommendations. Please note that the regulation requires a management decision to be reached on all recommendations within 6 months of report issuance.

JAMES R. EBBITT
Assistant Inspector General
for Audit

EXECUTIVE SUMMARY

IMPLEMENTATION OF THE GOVERNMENT PERFORMANCE AND RESULTS ACT IN RURAL DEVELOPMENT — FISCAL YEAR 1999 WASHINGTON, D.C.

REPORT NO. 50601-2-Ch

RESULTS IN BRIEF

Rural Development (RD) could not support the level of performance shown in its Fiscal Year (FY) 1999 Annual Program Performance Report, as required by The Government Performance and Results Act (GPRA). The Act requires agencies to develop strategic plans that set goals for program performance and to report annual performance compared with those goals. The objective of our audit was to evaluate the system of controls over performance reporting and assess the validity and verifiability of reported performance measurement data. We found that in many cases the performance data contained in RD's FY 1999 Annual Program Performance Report was inaccurate or unsupported and targets established were not always documented, resulting in a report that was of little or no utility.

We reviewed 21 of RD's 83 performance indicators, and found that 17 were questionable. We concluded that RD's implementation of GPRA was deficient because RD had not issued guidelines or procedures for accumulating, collecting, validating, and reporting the performance results or for documenting the methodology used in any of the processes. Consequently, RD did not verify the accuracy of performance results reported in the FY 1999 annual report and, in some instances, had no documentation to support these results. Further undermining RD's GPRA reporting was the inclusion of performance measures that were not relevant to the mission goals and, therefore, those measures did not provide meaningful information for assessing performance.

We also found that some of RD's sources of information were flawed and lacked basic internal controls. One non-accounting management system used as a source for GPRA reporting, the Rural Communities Facilities Tracking System, was particularly prone to reporting erroneous information because it lacked an internal control structure to provide reasonable assurance that accurate information would be consistently reported. We found numerous errors and omissions to the point that we

concluded the data used for performance reporting was misleading and not reliable for reporting purposes.

Until these conditions are corrected, it is unlikely that RD will produce a reliable annual program performance report for FY 2000 or in the future. To date, however, RD has not reported any material internal control weaknesses related to GPRA reporting in its Federal Managers' Financial Integrity Report.

Based on our review, the Rural Utilities Service, one of the agencies within the RD mission area, established a task force to formalize its performance measurement process. This task force was charged with developing explicit, written procedures concerning the sources of information used and the specific calculations applied in the performance measurements. However, the RD mission area, the Rural Business-Cooperative Service, and the Rural Housing Service had not yet taken similar action.

During the exit conference, RD officials advised us that they had recognized the limitations of the Rural Community Facilities Tracking System (RCFTS) and were developing a replacement system that would permit the shutdown of RCFTS, in its entirety. Implementation of Phase I of the Rural Development Application Processing Tracking System, scheduled for December 2001, would include Rural Business-Cooperative Service's Business Programs and Rural Housing Service's Community Facilities Program. Rural Utilities Service's Water and Waste Programs will be included in a later phase of the Rural Development Application Processing Tracking System. RD officials noted that the development of this web-based system would also support performance measures for GPRA by making data more reliable and more readily available.

KEY RECOMMENDATIONS

We recommended that RD develop procedures for implementing GPRA, including procedures to ensure the collection and reporting of accurate, complete, and meaningful performance data. We also recommended that RD ensure that documentation is retained to support targets established and performance data reported. As a part of those procedures, RD should establish internal controls that include comprehensive management and program level reviews and tests of the reasonableness of reported performance data. Until the quality of the annual program performance reports can be assured, RD should report the lack of an effective system of internal controls over performance reporting as a material weakness in its Federal Managers' Financial Integrity Act Report.

We also recommended that RD include performance indicators in the Management's Discussion and Analysis section of its consolidated financial statements that relate to vital agency goals and are supported by accurate performance results that are outcome-oriented and directly relate to the applicable goals. Language used in the performance indicators should be clear, consistent, and properly descriptive.

AGENCY RESPONSE

RD generally agreed with the findings and recommendations in the report. RD stated that it would establish a GPRA committee of mission area staff to document and implement a comprehensive strategy to ensure the collection and reporting of accurate, complete, and meaningful performance data, and to document support for established targets and performance results. RD also stated that it would establish a GPRA task force in the Rural Housing Service similar to that already established in Rural Utilities Service; Rural Business Cooperative Service will use an existing task force to address GPRA issues. These task forces will review the wording and the processes for measuring performance indicators and develop and recommend improved methods of verifying performance data to ensure consistent reporting of accurate information.

RD agreed that more outcome-oriented performance indicators should be included in the Management's Discussion and Analysis section of RD's consolidated financial statements. The RD Finance Office staff will participate with the RD GPRA committee to identify those vital supportable indicators that management believes best describe the success of RD's programs.

OIG POSITION

OIG generally agreed with RD's proposed actions for implementing the audit recommendations. We have reached management decisions on four of the nine audit recommendations and can reach management decision on the remaining recommendations once RD provides the additional information needed, as outlined in the OIG Position sections of the report.

We have incorporated applicable portions of RD's response, along with our position, in the Findings and Recommendations section of the report. RD's response to the official draft report, dated March 28, 2001, is included in its entirety as exhibit D of the audit report.

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INTRODUCTION

BACKGROUND

In 1993, Congress passed and the President signed into law the Government Performance and Results Act (GPRA). The Act changed the Federal Government's budgeting and policymaking mechanisms in dramatic ways. GPRA required Federal agencies to prepare and submit a multi-year strategic plan by September 30, 1997, and an annual performance plan starting in fiscal year (FY) 1998, as part of the FY 1999 budget submission. The first annual program performance reports assessing the FY 1999 results were due March 31, 2000.

The strategic plan covers a 5-year period, and is required to include a mission statement, a set of general goals and objectives, and a description of the linkage between these general goals and objectives and the performance goals that are included in the annual performance plan. The mission statement sets forth the basic purpose for what an agency does programmatically and operationally. The long-term general goals and objectives define what the agency intends to achieve over the time period of the strategic plan to further its overall mission.

Annual performance plans set out measurable goals that define what will be accomplished during a fiscal year. They also should provide the direct linkage between an agency's long-term focus in the strategic plan, to more detailed and year-specific goals and indicators. These plans are often hierarchical, showing what annual performance goals need to be accomplished at each level in order for the next higher level to meet their goals. Performance goals may relate to either "outputs" or "outcomes," the latter usually being the more important for policy purposes, but the former often being a useful management tool (especially when per-unit costs are also tracked). In order to provide perspective on an agency's performance, the strategic plans and annual performance plans contain baselines. The baselines provide a historical performance reference against which subsequent targets can be set and comparisons made. The baseline is intended to clearly communicate the agency's status as measured against a specific goal or objective. Rural Development (RD) issued the FY 1999/2000 performance plan for the mission area. Each of RD's three agencies, Rural Business-Cooperative Service (RBS), Rural Housing Service (RHS), and Rural Utilities Service (RUS), also issued their own performance plans for FY 1999/2000. RD prepares one consolidated performance report for its three agencies.

Annual performance reports provide the feedback to managers, policymakers, and the public as to what was actually accomplished for the resources expended—in other words, how well the original goals were met. The report provides information on actual performance and progress in achieving the goals and objectives in the strategic plan and in the performance plan.

Performance data for RD's FY 1999 report was gathered from numerous sources that included the following systems as well as agency-prepared spreadsheets.

Rural Community Facilities Tracking System (RCFTS) – RCFTS is a non-accounting management system that is used by all levels of RD to manage the loanmaking and servicing of all Community Programs and Business Programs. It contains information for all pre-applications, applications, direct loans, grants, and guarantees in the processing and construction stages, and all borrowers in operation.

Automated Multi-Housing Accounting System (AMAS) – AMAS is an accounting system that is operated separately from other RD loan and grant computer programs. The Multi-Family Housing (MFH) staff uses the system to automate processing of loan closing, advances, payments, and all servicing on its borrowers' loans.

Dedicated Loan Origination and Servicing (DLOS) System – DLOS is the financial system used to facilitate communication between the field offices that originate and close loans and the Centralized Servicing Center. The system is designed to expedite loanmaking, standardize information collection, and recordkeeping. DLOS tracks loans from application through servicing, using two interconnected systems.

Program Loan Accounting System (PLAS) – PLAS is the accounting system used to obligate funds for guaranteed loans, direct loans, and grants. The field offices access PLAS through a local program that allows them to enter initial transactions, perform analyses, and correct and reenter transactions. After loans are closed, direct loans and grants are also serviced using PLAS.

Guaranteed Loan Accounting System (GLAS) – GLAS is used for servicing guaranteed loans after they have been closed in PLAS. This system is being replaced by the Guaranteed Loan System which will encompass on-line borrower and lender maintenance, and on-line farmer program application processes.

Multi-Family Housing Information System (MFIS) – MFIS is a project classification subsystem that provides automated compliance status upon

defined agency standards. Both the servicing and State offices use the project system classification system to identify projects in noncompliance and provide improved management of those projects.

Multi-Family Housing Tenant Information System (MFTS) – MFTS is used to establish and maintain multiple-housing project information. The system is used to check and approve mathematical calculations on the tenant certification form, and to record and analyze each tenant household occupancy situation.

OBJECTIVES

The objectives of our audit were to evaluate the system of controls over GPRA performance reporting and assess the validity and verifiability of reported performance measurement data.

SCOPE

To evaluate RD's performance reporting, we reviewed the FY 1997 Strategic Plan and the proposed FY 2000 revision; the FY 2000/2001 performance plan; the FY 1999/2000 plan for the RD mission area and each of its three agencies; and the FY 1999 performance report. For Finding No. 3, we narrowed the scope to a review of the draft Management's Discussion and Analysis (MD&A) section of RD's draft FY 2000 consolidated financial statements. Our audit included verification of the reported results (accomplishments) of performance indicators contained in the performance report for FY 1999.

We performed our audit in the Headquarters offices of RD and its three agencies. We also visited the State, four area, and eight county offices in Illinois, Indiana, and Ohio. We reviewed 21 of the 83 performance indicators RD included in its performance report. We later expanded our original sample of 21 indicators to include a limited review of 2 additional indicators. We conducted the audit fieldwork between July and November 2000.

We performed the audit in accordance with Government Auditing Standards.

METHODOLOGY

To accomplish the audit objectives we:

- Reviewed requirements set forth in the GPRA legislation and in the guidance provided by the General Accounting Office (GAO) and the Office of Management and Budget (OMB).

- Reviewed RD's strategic plans, performance plans for FY's 1999/2000 and 2000/2001, and the FY 1999 performance report.
- Reviewed RD and agency operation procedures and/or manuals.
- Reviewed the draft FY 2000 MD&A section of RD's consolidated financial statements for FY 2000.
- Conducted interviews with Headquarters officials from RBS, RHS, and RUS as well as the RD mission area, and with agency staffs in three States. We conducted the interviews to obtain an understanding of the flow of information, from origination to compilation, for GPRA reporting. We judgmentally selected field locations for visit to verify performance results in the Single-Family Housing (SFH) Program, Community Programs, and Rural Business and Utilities Programs.
- Selected 21 of RD's 83 performance indicators in its performance report for substantive testing. We selected indicators to obtain a diversity of data sources and disciplines within RD. We later expanded our original sample of 21 indicators to include a limited review of 2 additional indicators.
- Obtained documentation on RUS Water and Waste Program loans and grants in six States through RD Headquarters officials for comparison to the performance results reported.
- Obtained documentation of MFH units in 10 States through RD Headquarters officials for comparison to the performance results reported.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	RD'S FY 1999 ANNUAL PROGRAM PERFORMANCE REPORT IS INACCURATE, UNSUPPORTED, AND UNVERIFIED
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FINDING NO. 1

Our review of 21 of the 83 performance indicators that RD used to measure accomplishments for FY 1999 disclosed that 16 indicators either were inaccurate and/or could not be supported. (See exhibit A for the

16 inaccurate and the 6 unsupported indicators. Some indicators were both inaccurate and unsupported.) RD had not developed and documented procedures for the collection, retention, verification, and reporting of GPRA data. We also noted that targets established for many indicators could not be supported. These problems reflect the need for RD to develop a formal process for the implementation of GPRA, including procedures and controls to ensure the accuracy of the results reported. Because of RD's weak controls, readers of the performance report, including those in Congress, should not use the report as credible evidence of accomplishments or as a basis for decision-making.

Section 220.12 of OMB Circular A-11 stated that, "the annual performance plan must include an identification of the means the agency will use to verify and validate the measured performance values." The circular further stated that the means the agency intends to use should be sufficiently credible and specific to support the general accuracy and reliability of the performance information that is recorded, collected, and reported.

According to the GAO published Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1), internal controls and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained. The USDA Budget Manual, Part II, Chapter 12, Part 2, also provides that performance information should be credible, complete, and consistent and

that the plan should identify significant data limitations and their implications for assessing achievement of performance goals.

In order to determine the validity of program accomplishments reported in RD's FY 1999 performance report, we requested that GPRA coordinators, and other officials from RD and each of its three agencies, provide us with the documentation they used to support the target levels and actual performance reported. We also reviewed supporting documentation available at three State offices, four area offices, and eight county offices.

RD officials were generally able to explain the process for establishing targets, but were unable to provide support for the targets for 18 of the 21 indicators we reviewed. Similarly, RD did not have documentation to support the results reported for six indicators because the support was either not retained or had been overwritten and could not be recreated. (See exhibit A.) We also concluded that results reported for 16 indicators were inaccurate based on the supporting documents agency officials provided. (See exhibits A and B.) RD did not verify the performance results; therefore, errors in the performance results were not detected.

RD employees stated that they did not develop any procedures for GPRA reporting and, since FY 1999 was the first year the performance report was issued, they did not always keep support for the results reported.

Computer/Information Systems Errors

We found inaccurate and unsupported results reported in the performance report due, in part, to computer input errors and omissions and apparent computer system programming errors and limitations. Many of these errors could have been eliminated if RD had basic internal controls over its sources of information and if RD had documented procedures it intended to use to verify and validate the performance results it would be reporting. RD used RCFTS and DLOS to support some of its actual performance results; we found problems with both of these systems. In addition, RHS and RUS used computer spreadsheets to support some of the actual performance data; there were no basic internal controls, such as input verification, over the process of accumulating and calculating the data included in the spreadsheets.

Rural Community Facilities Tracking System (RCFTS)

RUS had no controls to ensure the accuracy of RCFTS data input or to ensure that adequate support was maintained. RD officials were aware that the RCFTS was flawed and unreliable; however, RD continued to use that system as the basis for many of the actual results reported in its performance report. Based on our reviews in the three States we visited,

we found that the inaccurate data in the RCFTS was caused largely by system programming deficiencies and data input errors and omissions.

RD does not have any agency requirements regarding RCFTS edit checks, input verification, or even when to input data, according to RD officials. Some input was performed based on fund obligations and other input was based on loan or grant closing. Some performance data was not input; possibly because of work priorities. An agency official advised us that performing RCFTS input at the county office level was low-priority, to be performed only after obligating and servicing loans. One of the statements in the performance report regarding RCFTS was that it “*** does not contain edits to verify the accuracy of the data. This information is less reliable because it is obtained manually and its accuracy cannot be verified. However, confidence in this data is sufficiently high for it to be used for management decisions.” We do not believe that data that cannot be verified should be used for GPRA reporting or be relied on to make management decisions.

During our review of supporting documentation we found examples of inaccuracy such as:

- In its performance report, RBS significantly understated the number of businesses benefiting from Rural Business Enterprise Grant (RBEG) funds by an unknown amount due to input errors and omissions. This understatement occurred, in part, because RBS used the RCFTS data to determine the number of businesses assisted by its RBEG Program. The RCFTS indicated that 338 RBEG grants benefited 2,168 businesses; however, our verification disclosed 3 grants totaling over \$1 million that were incorrectly coded as RBEG and 75 grants totaling over \$7 million that were not recorded in the RCFTS for FY 1999. In addition, of the 338 grants in the RCFTS, 211 grants for almost \$21 million did not include any data in the field for the number of businesses benefiting from the RBEG Program. The other 124 grants supported the 2,168 businesses benefiting from RBEG, as reported by RBS to its mission area. Therefore, we concluded that the reported number was significantly understated because it did not include data from 286 grants—the 211 for which incomplete data was entered into the RCFTS and the 75 for which no data was entered. (Note: While RBS reported to the RD mission area that 2,168 businesses had benefited from the program, RD reported in its performance report that 2,331 businesses had benefited. RBS had support for the 2,168 businesses it had reported to the mission area; however, neither RBS nor RD could explain the discrepancy in reporting.)

- RUS incorrectly reported the total number of rural people provided with new and improved safe drinking water systems by an unknown amount because of an RCFTS limitation. The RCFTS could not accurately show the allocation of funds between subscribers of improved service in existing systems and subscribers in newly built systems. The RCFTS allows for the input of only one purpose code for each loan or grant. This programming limitation caused errors when a loan or a grant both improved service and provided new service. We could not determine the total extent of this reporting error.
- RUS overstated the actual results of two performance indicators for water and waste services by an unknown amount. RUS had reported that 1,314,012 rural people had been provided with safe drinking water systems in FY 1999. (See exhibit B.) To test this, we selected a sample of water and waste disposal loans and grants that showed service had been provided to 430,497 people and attempted to confirm that number to the applicable loan or grant documents obtained from RD field offices. We found that because of RCFTS input errors, users reported for the sampled loans and grants had been overstated by 366,744 people. For the other indicator, RUS had reported 748,776 rural people served who previously did not have public water. (See exhibit B.) We selected a sample of loans and grants that reported new users totaling 129,464 people but we found that figure had been overstated by 83,712 people. Errors such as the duplicate input of users being served or the inappropriate input of sewer users as water users contributed to the overstatement of people being served by RUS.

RUS did not have support for two indicators that we selected for review. RUS did not keep supporting documentation for the numbers submitted for the performance report, and the RCFTS could not generate a report for a specified period because, as updates occurred, the information for FY 1999 was overwritten. The RUS GPRA coordinator agreed that results for these indicators were not supported and stated they planned to revise the computer system that tracked these indicators to enable them to provide better data, but he said that no timeframes for the revision had been established. Since the agency did not have documentation to support the indicators, there was little assurance that RUS accurately reported the number of rural residents served.

Dedicated Loan Origination and Servicing (DLOS) System

DLOS is the system designed to expedite loanmaking, standardize information collection and recordkeeping, and facilitate communication between field offices and the Centralized Servicing Center. DLOS tracks loans from application through servicing. Even though RHS was aware

that a system deficiency resulted in inaccurate results in DLOS, RHS continued using DLOS to obtain information it used to calculate the number of jobs created by its SFH Direct Loan Program.

Specifically, the number of jobs RHS reported in its performance report as having been created by its SFH Direct Loan Program was based on flawed DLOS dwelling code information. In addition, RHS did not maintain documentation to support the number of jobs created. In order to determine the number of jobs created, RHS used DLOS data to determine the number of new houses financed and multiplied that number by a factor representing the number of jobs created for each new house purchased or built. However, when loans for new houses were coded into DLOS, some of them were improperly shown as "uncoded." When RHS officials retrieved information from DLOS, the system categorized the houses as new, old, or "uncoded." RHS officials told us that because the "uncoded" category included the purchase of existing houses as well as houses that were built or bought new, they had no way of determining the exact number of new houses included in that category. Therefore, RHS had to estimate the number of new houses.

The RHS GPRA coordinator explained that in order to estimate the number of new houses financed which were included in the uncoded category, he first determined the percentage that new houses comprised of total coded loans. He told us that he then applied that percentage to the total number of uncoded loans. However, when we attempted to confirm his calculation, we could not arrive at the numbers reported in the performance report. While the methodology to determine the estimated number of new houses may have been reasonable, no documentation was maintained by RHS to support its calculations. RD and RHS officials were aware of the problems with DLOS, and subsequent to the completion of audit fieldwork, they advised us that they had corrected the coding problems.

We identified 374 SFH direct loans in Indiana, Illinois, and Ohio that either had no dwelling code to identify the type of loan or had been made for the purpose of building a new home or buying a new home. These 374 loans were from a national universe of 7,348 similarly coded loans. Of the 374 loans in the three States, 183, or over 48 percent, did not have an identifying dwelling code due to system errors. During field visits we reviewed 37 of the 374 loans and concluded that 6 of the 37 loans reviewed, or 16 percent, contained dwelling code errors that impacted the number of jobs created. We could not determine the number of jobs understated or overstated due to this deficiency.

Spreadsheets

RD agencies used spreadsheets to accumulate and calculate various performance data; however, the processes for accumulation and preparation of the spreadsheets did not have basic internal controls, such as second party reviews. As a result, the spreadsheets did not present accurate performance results that could be used for GPRA reporting.

For example, RUS overstated the number of new residents and businesses receiving telecommunications service due, in part, to an input error on its spreadsheet. The agency spreadsheet indicated 3,144 new telecommunications subscribers for one loan, but the supporting Telephone Loan Feasibility Study (RUS Form 496) indicated only 967 new subscribers. This one error caused an overstatement of 2,177 new subscribers, which equates to an overstatement on the performance report of 6,531 new residents (2,177 subscribers times 3.0 average number of residents per rural household).

Calculation Errors

RD reported incorrect, inconsistent, and misleading data in its performance report due, in part, to calculation errors. These errors were caused by the use of obsolete, rounded, and inappropriately used multipliers and resulted in the report not presenting reliable and credible evidence of agency accomplishments.

- RHS reported an incorrect number of jobs created by its SFH Direct Loan Program. RHS inappropriately used industry-supplied data from the National Association of Home Builders (2.448 jobs per house based on an average house costing \$194,400) for its multiplier to calculate the actual number of jobs created by its SFH Program. Economic Research Service (ERS) officials advised us that 2.1 jobs per home would be more appropriate for rural homes. The ERS-supplied figure of 2.1 was based on a house costing \$100,000.
- RUS overstated its actual results for the performance indicators entitled "rural people provided with safe drinking water systems" by at least 93,858 and "rural people served who previously did not have public water" by at least 53,484 due to calculation errors. These calculation errors occurred because RUS used an obsolete factor for the average number of residents per rural household. RUS used 2.8 residents per household, which it had previously obtained from the ERS. However, when we contacted ERS to verify the accuracy and applicability of the factor, we were advised that the average number of residents per rural household has been 2.6 since 1990.

- RUS overstated the number of new residents and businesses receiving telecommunications service by at least 22,958, or 13 percent, due to calculation errors. RUS misapplied a multiplier for the average number of residents per rural household. RUS applied this multiplier (2.8 residents per household) to all subscribers (i.e., households and non-households such as businesses, schools, and churches) because the report used to compile the information did not differentiate between households and non-households. RUS also used an obsolete multiplier, as noted above, and then inappropriately rounded the multiplier from 2.8 to 3.0.

RD Mission Area Errors

The RD mission area did not have controls to ensure reported data was accurate and RBS had not ensured that data reported in the performance report was the same as what was provided to RD. We determined that the results RBS reported to RD were different from the numbers shown for RBS in RD's performance report. Neither RBS officials nor the mission area coordinator could explain why the numbers were different. Examples of the differences noted are shown below.

- RBS submitted information to the RD GPRA coordinator showing that RBEG had created 11,860 jobs; however, the report showed that 11,464 jobs had been created. RBS provided documentation to support the 11,860 jobs they reported to the mission area.
- RBS submitted information to the RD GPRA coordinator regarding its Rural Economic Development Loan and Grant (REDLG) Program that was different from the information RD reported in its performance report. The report shows incorrect performance data for the indicators of non-REDLG funds leveraged per dollar of REDLG Program funds. RBS submitted information to the mission area GPRA coordinator showing that \$15 million in RBS loan funds had leveraged over \$84 million, or \$5.65 leveraged for each dollar of RBS loan funds, and that the \$11 million in RBS grant funds had leveraged over \$28 million, or \$2.56 leveraged for each RBS grant dollar. The report shows that \$3 was leveraged for each dollar of both RBS loan and grant funds. Neither RD nor RBS officials could explain why the data RBS provided to the mission area was changed to that shown in the report.

Verification and Validation

We reviewed RD's and its agencies' annual performance plans and concluded that the verification and validation processes shown were meaningless because they were either vague or contained misstatements.

While the plans sometimes described how they would verify and validate performance data, they rarely discussed the implications of data limitations or identified planned actions to compensate for poor quality data. As a result, RD had little assurance that performance information was complete, accurate, and consistent for documenting performance and supporting decisions on how best to manage programs. For example:

- RUS' discussion of the verification and validation of data relating to performance goals and indicators for its programs was limited to primarily stating that the relevant data was available in records from RUS' automated systems, borrower-reported statistics, and ERS. It further states that RUS has had long experience with its internal data and is highly confident of its accuracy. However, RUS does not discuss the basis for its confidence in its data accuracy and reliability nor how data limitations could adversely affect its ability to assess performance. In addition, the performance plan made no mention of actions that RUS would take to compensate for any unavailable or low-quality data.
- RBS stated that its verification and validation of three performance indicators—the number of jobs created or saved due to RBEG funding, the number of businesses benefiting from RBEG funding, and the amount of non-program funds leveraged for each dollar of REDLG funds—were to be “based on historical data.” This verification methodology is extremely vague because it does not specify what or how the historical data will be used.
- RHS' performance plan states that, “data from the following systems can be used to verify and validate most performance measures:
 - Program Loan Accounting System (PLAS)
 - Guaranteed Loan Accounting System (GLAS)
 - Dedicated Loan Origination and Servicing System (DLOS)
 - Multi-Family Housing Information System (MFIS)
 - Multi-Family Housing Tenant Information System (MFTS)
 - Rural Community Facilities Tracking System (RCFTS).”

The plan continued, “These systems track financial data, but generally not management data. The systems are audited annually by OIG as a part of their development of an audited financial statement. Manual reports from State Director[s] will be used to obtain data regarding many of the performance measures for the Community Facility Program. A survey of customers will be conducted to determine tenant satisfaction.”

In our opinion, this process is of dubious value because it does not describe the means to be used to verify and validate the measured

values. Also, the statement that these computer systems are audited annually by OIG is incorrect. During our audit of RD's financial statements, we do perform limited testing to verify certain information obtained from PLAS, GLAS, and DLOS. However, our tests are not designed to provide assurance on the overall quality or accuracy of data in these systems. In addition, while OIG may have reviewed data from the MFIS, MFTS, and RCFTS, it is an overstatement to say that the systems have been audited annually by OIG. RD officials advised that this statement was corrected in the FY 2000 Annual Performance Report.

Federal Managers' Financial Integrity Act Report

RD needs to disclose in its Federal Managers' Financial Integrity Act Report, a material weakness for the lack of internal controls over the accuracy and relevancy of management data in RD's GPRA reporting processes. Section 2 of the Act and Circular A-123 require the head of each executive agency to establish management controls to provide reasonable assurance that:

- Programs achieve their intended results;
- resources are used consistent with agency mission;
- programs and resources are protected from waste, fraud, and mismanagement;
- laws and regulations are followed; and
- reliable and timely information is obtained, maintained, reported, and used for decision making.

In addition, agency officials are required to prepare a statement, on the basis of an annual evaluation, that management controls fully comply or that they do not fully comply with requirements. If they do not fully comply, agency officials should include a report of material weaknesses along with the statement.

Given the scope of problems with published performance data in its performance report and the lack of an effective system of internal controls to ensure complete and accurate reporting in the future, we concluded that RD should report a material weakness in internal controls as part of its Federal Managers' Financial Integrity Act Report.

RUS acknowledges serious problems with its FY 1999 performance report. To its credit, on August 24, 2000, RUS implemented a task force to formalize an improved GPRA reporting procedure. The mission of that task force was to develop explicit, written instructions for the accumulation, documentation, and reporting of program accomplishments related to performance indicators.

RD should give serious consideration to changing plans for issuance of future annual performance reports unless it can ensure that these reports are accurate and meaningful. As an alternative, RD might (1) seek a waiver from reporting, based on the inadequacies of the data; (2) report only those measures where the agency has a reasonable degree of confidence, based on documented verification and validation activities; or (3) issue a report without quantitative data that candidly describes the problems the agency faces and planned efforts to move the agency toward meaningful performance reporting.

RD officials stated that they used procedures and systems already in place, some of which they knew contained inaccurate data, to gather data for reporting program accomplishments. Also, they did not have documentation to support the extrapolations or calculations they made using data from those systems. The agencies relied on informal processes to gather and calculate data that was reported. Since RD did not have written policy guidance for GPRA data collection, verification, and reporting, nor on the methodology to be used to calculate results and document reported accomplishments, support for some of the results reported was nonexistent and could not be recreated. Because of this lack of documentation, agency officials had to rely on their memories to try to recreate the numbers they had reported; however, those efforts were often futile. We believe that this lack of procedures for the collection, verification, and reporting of performance results is a major reason for many of the errors in the report.

A significant coordinated effort will be needed to improve the quality of performance reporting. RD must develop clear written guidance to define what constitutes a reportable accomplishment; how to gather, calculate, and report the data; and how to verify and validate the data in order to fulfill the objectives of GPRA. Once this guidance is issued, RD must establish controls to assure that those procedures are fully implemented.

RECOMMENDATION NO. 1

Document and implement a comprehensive strategy to ensure the collection and reporting of accurate, complete, and meaningful performance data and that documentation exists to support the established targets and the performance results included in the Annual Program Performance Report.

Agency Response

RD concurred with this recommendation and will form a committee composed of mission area staff to facilitate this effort.

OIG Position

We agree with RD's response. In order to reach a management decision, RD needs to advise us of the timeframes for implementing the strategy that will ensure the collection and reporting of accurate, complete, and meaningful performance data.

RECOMMENDATION NO. 2

As part of the strategy to be developed in Recommendation No. 1, require managers at each level of the organization to attest to the accuracy of reported accomplishments in a written certification. If managers cannot attest to the accuracy, a written explanation of the reasons and proposed corrective action should be developed.

Agency Response

Attestation letters were required of the agency administrators, the Deputy Administrator for Community Development, and the Deputy Administrator for Operations and Management for both the FY 1999 and the FY 2000 reports. RD stated that it believed the current level of attestation was adequate.

OIG Position

We are aware that RD already has a process by which agency administrators attest to data reported; however, as shown by the deficiencies noted in this audit report, that process was ineffective. We continue to believe that additional assurances are needed that information input to GPRA is complete and accurate. Having program staff attest to the accuracy and completeness of information they provide for GPRA reporting would further assure that the information was correct, supported, and reflected actual program performance. If the results reported cannot be attested as accurate, a written explanation of the circumstances should be included in the performance report.

In order to reach a management decision, RD should advise OIG of the actions it will take to assure that GPRA results are properly attested, and the timeframe for implementing these actions.

RECOMMENDATION NO. 3

Report the lack of an effective system of internal controls over performance reporting as a material weakness in the Federal Managers' Financial Integrity Act Reports until the quality of the Annual Program Performance Reports can be assured.

Agency Response

RD stated that it believes that corrective actions planned will alleviate the problems we identified in the audit report. RD will then determine if it should report material weaknesses in the 2001 Federal Managers' Financial Integrity Act Report.

OIG Position

We accept RD's management decision on this recommendation.

RECOMMENDATION NO. 4

Establish and implement internal controls over the collection, calculation, and reporting of performance data in information and manual systems, including a process to verify and validate performance data, to ensure consistent reporting of accurate information in the Annual Program Performance Reports.

Agency Response

RD generally agreed with the recommendation with the caveat that absolutely accurate information cannot always be obtained at a reasonable cost. The agencies reviewed OIG's findings and, for those with which they agreed, they stated that they have taken corrective action. They disagreed with our conclusion regarding one indicator where we questioned the amount of non-RUS funds leveraged with RUS loan funds. They stated that the calculation was based on the amount of funds advanced for FY 1999 but that OIG had based its calculation on the amount of funds obligated.

RD stated that it has already established GPRA task forces in RUS and RBS and that RHS will establish a similar task force. These task forces will review the wording and processes for measuring performance

indicators and will develop and recommend improved methods of verifying performance data to ensure consistent reporting of accurate information.

OIG Position

We disagree with RD's position that OIG's calculation of the RUS leveraged figure is incorrect. The RD calculation was based on the amount of funds expended in FY 1999 and OIG based its calculation on the amount of funds advanced. Since the performance measure specified that the leveraged figure would be based on the amount of funds advanced, we still believe our calculation is correct.

We believe that, in general, RD's actions taken are appropriate. Before we can reach a management decision on this recommendation, RD should advise OIG when the task forces will complete their reviews of the wording and processes for measuring the performance indicators. We agree that having task forces develop and recommend improved methods for verifying performance data should ensure that consistent and accurate information is reported in the annual performance report.

CHAPTER 2	PERFORMANCE INDICATORS WERE NOT ALWAYS CLEARLY DEFINED AND DID NOT ALWAYS RELATE TO THE INTENDED GOAL
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FINDING NO. 2

Performance indicators in RD's annual performance report did not always relate to the goal that they were intended to measure. In addition, key words contained in performance indicators were not always properly defined or were not readily understandable in the context used. Review of 21 of 83 performance indicators disclosed that 5 were not appropriate to measure progress in achieving the intended goals and/or contained terminology that was either unclear or ambiguous. (See exhibit A.) We believe these problems were caused by RD's failure to adequately plan for GPRA, including the establishment and implementation of written procedures to provide guidance for the measurement, accumulation, verification, and reporting of performance results. Such written procedures, if formulated, would have helped to ensure that results reported were appropriate and accurate. We also noted that the performance goals and indicators did not address a management challenge of RD regarding reducing fraud and abuse in the Rural Rental Housing (RRH) Program. As a result of the inappropriate performance measures and the unclear or ambiguous terms used in the performance report, Congress and the public could not use the report as intended to evaluate progress in achieving goals and to fairly assess and evaluate RD's accomplishments.

OMB Circular A-11, Part 2, Section 220.9 requires that performance goals be defined in either an objective and quantifiable manner or as sufficiently precise descriptive statements that would allow an accurate determination to be made of actual performance. It also provides that outcome goals be included whenever possible. If a performance goal is not self measuring, agencies must include one or more performance indicators for the goal that are set out in specific, measurable values or characteristics related to the goal and that would aid in determining goal achievement.

During our review of results reported for 21 performance indicators, we found that 2 did not measure results that would aid in the determination of the achievement of the performance goal the indicator was intended to measure. Also, five indicators contained language that was unclear, ambiguous, and open to misinterpretation. (These same deficiencies were also noted for two additional performance indicators not in our

original sample.) (See exhibit A.) The following sections discuss the deficiencies noted for the performance indicators.

The RHS section of the performance report contained an indicator to report the number of jobs created as a measure of progress in achieving the performance goal of providing access to credit for decent, safe, and sanitary housing to residents of rural communities. However, we question what the number of jobs created had to do with the goal of providing access to credit. Neither the report, nor the performance plan on which it was based, provided any explanation of the relationship between the indicator and the goal. The RHS GPRA coordinator agreed there was no direct relationship between the performance goal and the supporting indicator but justified the relationship by stating that RHS was trying to measure the outcome of a housing loan. He explained that jobs were the outcome of people buying houses. We continue to believe that there was no link between the goal and indicator and that users of the performance report would be misled regarding RD's accomplishments.

Similarly, neither the performance plan nor the performance report contained any explanation for the link between three RUS indicators reporting the number of jobs created or generated, and the three performance goals they were intended to measure. The three goals were to provide rural residents with modern affordable water and waste systems, telecommunications systems, and electric services.

These performance indicators, and two additional indicators in the FY 1999 performance report, contained terms or language that was unclear or ambiguous. In addition, their meaning and how they were being used was not explained in the performance plan or in the report. The term "jobs created," as discussed above, was ambiguous because it implied that the jobs were permanent and were created or generated in the current year. However, the RHS GPRA coordinator confirmed that the "jobs created" that were referred to in the RHS performance indicator were temporary jobs that existed only during the construction of each house. This use of the term differed from the term jobs created or generated as used by RUS in three of its performance indicators. While also implying that the jobs were created in the current year as the term used by RHS did, the RUS concept of the term referred to jobs created in future years as a result of the construction of infrastructure that would generate economic growth.

In another instance of the use of unclear and misleading language, we noted an RHS performance indicator that was to report the number of additional tenants (for FY 1999) living in safe and sanitary housing. However, the performance indicator supported the number of rental assistance units added during the year. The logic or justification of the

relationship between additional tenants and additional rental assistance units was not explained in either the performance plan or in the performance report.

Neither the plan nor the report addressed the management challenge of fraud and abuse in the RRH Program. Instead, accomplishments toward meeting their performance goals were measured by the number of new units built and the number of units rehabilitated. OIG has found a continuing history of fraud and abuse by owners and management companies and has recently worked with RD in a team approach to identify and act on the worst offenders. Additional efforts to improve RRH would reform program regulations to better identify identity of interest relationships and develop a loan classification system to identify and prioritize "at risk" properties. The annual performance plan states that RHS has made substantial progress and continues to work on this area of concern; however, no details are provided. GAO also noted the omission of this management challenge in a letter to Congress dated June 30, 2000, that provided their observations on the FY 1999 performance report and FY 2001 performance plan.

In response to GAO, RD noted that it had implemented a number of reforms but did not believe that it was appropriate to include such goals and indicators in its performance plan. RD further stated that the language in the plan for improving the quality of life for residents of rural communities by providing access to decent, safe, sanitary, and affordable rental housing most appropriately describes the goals and indicators for the program. We agree with GAO's assessment that addressing management challenges is an important part of an agency's performance. Specific performance goals and indicators can provide the needed focus for an agency's efforts and the means to effectively report on progress. We noted that the newly developed Strategic Plan for FY 2000-2005 includes a long-term strategy of ensuring that RRH projects are well managed and maintained; however, it is unclear how abuses by owners and management companies will be addressed in future performance plans.

As a result of the use of inappropriate performance indicators and unclear, unexplained language, the performance report cannot be relied on to provide a clear understanding of or to permit a fair assessment and evaluation of RD's accomplishments.

RECOMMENDATION NO. 5

Ensure performance indicators used are appropriate to show progress in achieving the goals they were intended to measure.

Agency Response

RD will use the task forces it is establishing in response to this audit to evaluate its performance indicators and ensure that they are appropriate measures for the goals. Further, some indicators are already being changed to better reflect progress in achieving the performance goals.

OIG Position

Before we can reach a management decision on this recommendation, RD should advise OIG when the task forces will complete their reevaluations of the performance indicators.

RECOMMENDATION NO. 6

Use clear, unambiguous language that is properly descriptive and consistently applied in the development of performance indicators and ensure the intent of the indicators is fully explained to the reader.

Agency Response

RD will use the task forces it is establishing in response to this audit to examine the language used to describe the performance indicators and ensure that the indicators are clearly defined and understandable.

OIG Position

In order to reach a management decision on this recommendation, RD should advise OIG when the task forces will complete their examination of the language used to describe the performance indicators and ensure that the indicators are clearly defined and understandable.

RECOMMENDATION NO. 7

Ensure performance goals and indicators that address RD's management challenges are included in annual performance plans and annual performance reports to show progress in meeting the challenges.

Agency Response

RD stated that at least one performance indicator for each of its three major management challenges is included in the FY 2001 and 2002 Annual Performance Plan.

OIG Position

During our review of the FY 1999 Annual Performance Report, we noted instances such as the SFH delinquency rate where performance indicators were mentioned in the FY 1997 Strategic Plan, but not in the performance report. The annual performance report should contain the results of the year's performance of what was in the strategic plan. Based on our review of the revised strategic plan and annual performance plan for FY 2000/2001, we found no performance indicators related to the management challenges. In their response, RD stated that performance indicators are included in the FY 2001/2002 Annual Performance Plan. OMB Circular A-11, section 210.2(d) states that, "All interim adjustments should be included with the annual performance plan (the annual plan) as a separate, easily found section." We can reach management decision when RD provides us information showing that it has added the indicators to the annual performance plan in a separate – easily found section.

CHAPTER 3	MANAGEMENT'S DISCUSSION AND ANALYSIS SECTION OF RURAL DEVELOPMENT'S FY 2000 FINANCIAL STATEMENTS FAILED TO MEET REQUIREMENTS AND CONTAINED MATERIAL MISSTATEMENTS
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FINDING NO. 3

The performance indicators in the draft MD&A section of RD's draft FY 2000 consolidated financial statements contained misstatements of RD's program accomplishments. In addition, the draft MD&A did not comply with OMB requirements and the Statement of Federal Financial Accounting Standards that it deal with the vital few matters that would affect the judgments and decisions of those who rely on the general purpose Federal financial statements. Performance indicators included by RHS, in particular, would do little to demonstrate progress in achieving the agency's major goals and objectives and permit informed decisions by Congress and agency managers who rely on information presented in the MD&A. We believe these problems occurred because RD did not adequately plan for GPRA and did not establish and implement written procedures to provide guidance for the measurement, accumulation, verification, and reporting of performance results. As a result, the MD&A lacked meaningful data to show progress toward meeting agency goals and could mislead Congress with regard to RD's actual program performance and accomplishments.

OMB Bulletin 97-01 and the Statement of Federal Financial Accounting Standards No. 15 require that the MD&A provide program and financial results expressed in terms of objective, relevant indicators that disclose the extent to which programs are achieving their intended objectives and that are consistent with the indicators used as part of the GPRA implementation efforts. They also state that, for the performance indicators to be useful, they should be clear, meaningful, relevant, etc., and should be limited to the most significant program indicators.

Instructions for the Overview (now termed the MD&A) in OMB Bulletin 97-01 provided that "measuring costs is an integral part of measuring the efficiency and effectiveness of programs. Efficiency is measured by relating outputs (the quantity of services provided) to inputs (the costs incurred to provide the services). Effectiveness is measured by the outcome or the degree to which a predetermined objective is met, and it is commonly combined with cost information to show "cost effectiveness." Entities should strive to develop and report objective

measures that, to the extent possible, provide information about the cost effectiveness of programs.”

We examined the performance indicators (termed by RD as key outcome measures) in the draft FY 2000 MD&A provided to us on December 5, 2000, to determine whether any misstatements were made and whether they were consistent with other materials related to the implementation of GPRA. In addition to our discussion here, we commented on the results of our examination in our audit of RD's FY 2000 consolidated financial statements. The draft of the MD&A that RD provided to us on December 5, 2000, contained 17 performance indicators. The FY 1999 MD&A included 23 performance indicators. The reduction in the number of indicators was not the result of better targeting of GPRA performance indicators to those vital to demonstrating progress in meeting agency goals. The reduction in indicators was based, in part, on our expressed concerns to RD that results reported for some performance indicators in the annual performance report were not accurate. We informed RUS that RCFTS would not support the results reported for three performance measures in the performance report that related to the number of people served. Subsequently, these indicators were dropped from the draft FY 2000 MD&A. However, these same indicators had been reported in the FY 1999 MD&A.

We questioned 9 of the 17 indicators as they were presented in the draft MD&A because the results reported would not support the applicable indicator, as stated. Additionally, the MD&A did not meet the requirements of OMB and the Statement of Federal Financial Accounting Standards because it did not, in our opinion, include vital, significant indicators that would affect the judgments and decisions of people and would be significant to the management, budgeting, and oversight functions of Congress. These deficiencies are discussed in the sections below.

Exceptions Noted in Performance Indicators of the MD&A

The results reported in the draft MD&A were either incorrect or would not support nine indicators as presented. Some of the language or specific words used in the indicators were ambiguous, unclear, or otherwise unrelated to the results being reported. The following examples illustrate the problems found in the way the indicators were phrased. We have also attached, as exhibit C, a complete list of the indicators in the MD&A and the exceptions noted.

- One indicator reported in the MD&A for RHS was to “provide credit to rural residents to purchase a home” and the result reported for FY 2000 was shown as “45,420 residents.” However, the result

reported was actually the number of loans made by RHS for the purchase of single-family homes. Unless RD wants readers of the MD&A to assume only 1 person lives in each of the houses they provided credit to purchase, the 45,420 figure shown in the MD&A misstates the number of residents assisted by the loans RHS made. RD must either revise the way the indicator is phrased or revise the figure reported for the indicator to actually show residents (or people) being assisted by the 45,420 loans made in FY 2000.

- RD's use of the term "currency rate" in its performance indicators to denote delinquency of program borrowers was confusing and was not used consistently within the MD&A. It was also not consistent with the indicators used by RD as part of its GPRA implementation efforts. The term was used in indicators reported for SFH, MFH, and Community Facility Programs in RHS; however, RBS used the term "delinquency rate." RD did not use the term "currency rate" anywhere in its FY 1999 annual performance report. In fact, the only indicator in the report related to the delinquency of borrowers was for an RBS performance indicator. The wording was similar to the wording used in the draft MD&A for FY 2000.
- Also, we believe the term "currency rate" is confusing and ambiguous since "currency" is normally used in relation to international monetary issues unrelated to borrower payment status. RD staff stated that they believed the term was used because it was seen as more positive in expressing the payment status of borrowers. However, we believe an indicator phrased to report the percent of borrowers current on their loan payments would still express the indicator in a positive way and yet be clearer to the reader.

The exceptions noted with the nine performance indicators, as shown in exhibit C, were discussed with RD officials who then reworded the indicators to properly support the results reported in the final MD&A.

MD&A Did Not Comply with Requirements

OMB and Federal accounting standards requirements provide that the MD&A should include vital, significant program indicators that would affect the judgments and decisions of people who rely on the financial statements as a source of information. Those indicators should also inform the reader how well the reporting entity is achieving its goals and mission. However, RD included indicators in the MD&A that did not accomplish these requirements.

- For example, RD included four key indicators in the MD&A regarding RHS. Three of the indicators reported the "currency rate" of SFH,

MFH, and Community Facility Program customers. The fourth indicator reported the number of rural residents provided credit to purchase a house. These indicators do little to show RHS' progress in achieving its mission of improving the quality of life in rural America and helping build competitive, vibrant communities through community facilities and housing programs. The "currency rate" of customers does not provide a reader with the information needed to assess agency performance in meeting its goals and accomplishing its mission.

- RD included two indicators regarding performance related to the RUS' Water and Environmental Program. The indicators used were for the number of persistent poverty rural counties and counties with persistently declining populations that were provided financial assistance. However, the indicators were not meaningful because information regarding the amount of financing provided or the number of rural residents that benefited in those counties, which would have quantified RUS performance, was not included.

The MD&A did not include vital program performance indicators nor did it accurately report performance results that would be of value in the management, budgeting, and oversight functions of Congress. The indicators reported would also be of little value for use in determining the efficiency and effectiveness of the RD programs. We believe that, in an attempt to assure that only accurate data was reported based on the results of our ongoing audit, RD substantially reduced the number of indicators from what it had reported in FY 1999. While indicators included in the FY 2000 MD&A were similar to the indicators included in the FY 1999, RD dropped six indicators that had been included in FY 1999. In addition, RD's use of unclear or improper language to express the indicators that were included in the draft MD&A for FY 2000 and RD's failure to associate the indicators with appropriate accomplishments for FY 2000 contributed to the failure of the MD&A to meet requirements.

During the exit conference, RD officials stated that when actions were taken to correct the deficiencies in the first two findings, they would then be able to prepare an MD&A that would meet GPRA requirements.

RECOMMENDATION NO. 8

Ensure that outcome-oriented performance indicators included in the Management's Discussion and Analysis section of Rural Development's consolidated financial statements relate to significant agency goals and are supported by accurate performance results.

Agency Response

RD agreed that more outcome-oriented performance indicators should be included in the MD&A section of its consolidated financial statements. Finance office staff will participate with the RD GPRA task force to identify those vital, few supportable indicators that management believes best describe the success of their programs. These indicators will be identified by September 30, 2001.

OIG Position

We agree with RD's management decision.

RECOMMENDATION NO. 9

Establish controls to ensure that accurate performance indicators are included by requiring high-level program managers to certify to their accuracy and that validation efforts were conducted.

Agency Response

RD agreed with the recommendation and will revise its management representation letter for the FY 2001 financial statements to include a representation that the reported program and financial indicators are consistent with information on major goals and objectives from the agency's strategic plan, and that there are no material misstatements or omissions in the amounts reported.

OIG Position

We agree with RD's management decision.

ACRONYMS

DLOS	Dedicated Loan Origination and Servicing System
ERS	Economic Research Service
FY	Fiscal Year
GAO	General Accounting Office
GLAS	Guaranteed Loan Accounting System
GPRA	Government Performance and Results Act of 1993
MD&A	Management Discussion and Analysis
MFH	Multi-Family Housing
MFIS	Multi-Family Housing Information System
MFTS	Multi-Family Housing Tenant Information System
OMB	Office of Management and Budget
PLAS	Program Loan Accounting System
RBEG	Rural Business Enterprise Grant Program
RBS	Rural Business-Cooperative Service
RCFTS	Rural Community Facilities Tracking System
RD	Rural Development
REDLG	Rural Economic Development Loan and Grant Program
RHS	Rural Housing Service
RRH	Rural Rental Housing
RUS	Rural Utilities Service
SFH	Single Family Housing

EXHIBIT A – PERFORMANCE INDICATORS REVIEWED

Strategic Goals (RBS)	Performance Goals	Performance Indicators Reviewed	OIG Conclusion			
			Unsup-ported	Inac-curate	Inappropriate to measure progress	Ambiguous
RD will improve the quality of life in rural America by encouraging the establishment and growth of rural businesses and cooperatives.	Create or save jobs in rural areas.	Number of jobs created or saved.	X	X		
		Community economic benefits.		X		
		IRP dollars lent by intermediaries/IRP dollars obligated to intermediaries.				
		Number of businesses benefiting from RBEG Program.		X		
		Non-RBEG funds leveraged for each dollar of RBEG funds.	X	X		
		Non-REDLG loan funds leveraged per dollar of program funds.		X		
		Non-REDLG grant funds leveraged per dollar of program funds.		X		
	Assist marketing networks and cooperative partnerships in the establishment and expansion of business outlets.	Percentage of B&I guaranteed funds obligated to cooperatives.		X		
	Manage the B&I portfolio effectively to minimize the delinquency rate.	Manage the B&I portfolio effectively to minimize the delinquency rate.		X		

Strategic Goals (RHS)	Performance Goals	Performance Indicators Reviewed	OIG Conclusion			
			Unsup-ported	Inac-curate	Inappropriate to measure progress	Ambiguous
RD will improve the quality of life of rural residents by providing access to technical assistance, capital and credit for quality housing and modern, essential community facilities.	Improve the quality of life of residents of rural communities by providing access to credit for decent safe, sanitary housing.	Number of jobs created for Direct Section 502 SFH Loans.	X	X	X	X
	Improve the quality of life for the residents of rural communities by providing access to decent safe, sanitary and affordable rental housing.	Number of new units built for Section 515 MFH.	X	X		
	Improve the quality of life for rural residents by providing new or improved essential community facilities.	Number of new or improved health care facilities.				
	Direct resources to those rural communities and customers with the greatest need.	Additional tenants living in affordable, decent, safe, and sanitary MFH.				X
	Maximize the leveraging of loan funds to increase the number of rural residents assisted by RD programs.	Number of Community Facility borrowers assisted through leveraging.				

Strategic Goals (RUS)	Performance Goals	Performance Indicators Reviewed	OIG Conclusion			
			Unsup-ported	Inac-curate	Inappropriate to measure progress	Ambiguous
RD will improve the quality of life of rural residents by promoting and providing access to capital and credit for the development and delivery of modern, affordable utility services.	Provide rural residents with modern, affordable water and waste services.	Rural people provided with safe drinking water systems.	X	X		X
		Rural people served who previously did not have public water.	X	X		
		Total jobs generated as a result of facilities constructed with water and waste program funds. (1)			X (1)	X (1)
	Provide modern, affordable telecommunications services to rural communities.	Number of new residents and businesses receiving service.		X		X
		Jobs generated as a result of facilities constructed. (1)			X (1)	X (1)
		Schools receiving transmission facilities for distance learning applications.				
	Provide modern, affordable electric service to rural communities.	Jobs created as a result of facilities constructed with Electric funds.		X	X	X
	Direct program resources to those communities with the greatest need.	Number of Water and waste assistance projects in the identified 540 persistent poverty counties.		X		
		Electric loans made in the identified 700 out-migration counties (number and amount).		X		

(1) We performed a limited review of this performance indicator; therefore, it is not included in our original sample of 21 indicators reviewed nor the 17 we reported as questionable. We analyzed this indicator because a similar indicator related to the number of jobs created was ambiguous and did not actually measure progress toward achieving the appropriate goal. We did not test the accuracy of, nor the support for, the number of jobs reported for this indicator.

EXHIBIT B – INACCURATE PERFORMANCE RESULTS REPORTED

AGENCY	PERFORMANCE INDICATOR	FY 1999 ANNUAL PROGRAM PERFORMANCE REPORT	RELIABILITY OF REPORTED AMOUNTS ^{1/}
RBS	Number of jobs created or saved	74,379	Unknown
	Community economic benefits	\$3.356 Billion	Unknown
	Number of businesses benefiting from RBEG Program	2,331	Unknown
	Non-RBEG funds leveraged for each dollar of RBEG funds	\$2.40	Unknown
	Non-REDLG funds leveraged per dollar – Loans	\$3.00	Unknown
	Non-REDLG funds leveraged per dollar – Grants	\$3.00	Unknown
	Percentage of B&I Guaranteed Funds obligated to cooperatives	4.4%	Unknown
	Manage B&I portfolio effectively	4.8%	Unknown
RHS	Number of jobs created Section 502 SFH Direct Loans	14,257	Unknown
	Number of new units built Section 515 MFH	2,189	Unknown
RUS	Rural people provided with safe drinking water systems	1,314,012	Unknown
	Rural people served who previously did not have public water	748,776	Unknown
	Number of new residents and businesses receiving [telecommunications] service	170,000	Unknown
	Jobs created as a result of facilities constructed with electric funds	36,018	Unknown
	Number of water and waste assistance projects in the identified 540 persistent poverty counties	247	Unknown
	Number of electric loans made in the identified 700 out-migration counties	83	Unknown

^{1/} Because of the magnitude of incomplete and incorrect data in the various data sources and the erroneous methodologies used to determine reported results, we were unable to determine the amount that should have been reported.

**EXHIBIT C – PERFORMANCE INDICATORS IN THE DRAFT FY 2000
MANAGEMENT DISCUSSION & ANALYSIS REVIEWED**

AGENCY	PROGRAM	PERFORMANCE INDICATOR	OIG CONCLUSION	OIG ANALYSIS
RHS	SFH Program	Provide credit to rural residents to purchase a home.	Wrong	Reported number of loans instead of number of residents.
		Maintain a first year currency rate for SFH customers	Wrong	Unclear wording regarding "currency" rate.
	MFH Program	Maintain currency rate for MFH customers.	Wrong	Unclear wording regarding "currency" rate.
	Community Facilities Program	Maintain currency rate for CF customers.	Wrong	Unclear wording regarding "currency" rate.
RBS	RBEG	Invest Rural Business Interprise Grant funds in EZ/EC Communities	Okay	
	IRP	Invest Intermediary Relending Program funds in EZ/EC Communities.	Okay	
	B & I	Invest B&I Guaranteed Loan Program Funds in EZ/EC Communities.	Okay	
		Maintain a delinquency rate, excluding bankruptcy cases, for guaranteed Business and Industry Loans.	Okay	

AGENCY	PROGRAM	PERFORMANCE INDICATOR	OIG CONCLUSION	OIG ANALYSIS
RUS	Electric Program	Leverage private funds in rural electric infrastructure for every \$1 of RUS electric program loan advances	Okay	
		Number of electric borrowers serving persistent poverty counties receiving financial assistance to establish or improve local electric service.	Okay	
		Number of electric borrowers serving the 700 counties experiencing out-migration receiving financial assistance to improve the local electric service.	Okay	
		Number of residents to benefit from improved electric systems. (In millions)	Wrong	Reported meters instead of people.
	Telecommunications Program	Leverage private funds in rural telecommunications infrastructure for every \$1 of RUS telecommunications program loan advances.	Wrong	Reported \$6.51; should be \$2.61. 1/
		Number of rural residents and businesses receiving financing to obtain improved telecommunication service.	Wrong	Inappropriate wording. Should be "residences" and businesses or "subscribers" and businesses. Also, misapplied average number of residents per household to businesses.
		Number of schools provided with financing for distance learning facilities.	Wrong	Inappropriate wording. Reporting multiple "schools" for the entity (i.e., Arkansas State University with 56 schools).
	Water and Environmental Program	Number of communities located in persistent poverty rural counties that received financial assistance to establish or improve a system for drinking water or waste disposal.	Wrong	Inappropriate wording. "Communities" should be "projects."
		Provided financial assistance for water and waste systems in the 700 counties with persistently declining population.	Okay	

- 1/ RUS reported \$6.51, which it computed by dividing total non-RUS telecommunications program expenditures by the amount of RUS funds expended. However, the indicator required a comparison of total non-RUS expenditures to the amount of RUS loan fund advances (not expenditures); the reported amount should have been \$2.61.

EXHIBIT D – AGENCY'S RESPONSE TO THE DRAFT REPORT



United States
Department of
Agriculture

Rural Development

Operations and
Management

Washington, DC
20250

SUBJECT: OIG Audit Report No. 50601-2-Ch, Implementation of the Government Performance and Results Act in Rural Development

TO: Roger Viadero
Inspector General

FROM: R. Mack Gray *Mack Gray*
Acting Deputy Under Secretary
Natural Resources and Environment
and Rural Development

MAR 28 2001

Thank you for the opportunity to address the recommendations in the subject audit.

The FY 1999 Annual Performance Report, which is the basis of this audit, was the first such report prepared by Rural Development in response to the Government Performance and Results Act (GPRA). It is based on Rural Development's Annual Performance Plan for FY 1999, which was Rural Development's first such plan. In developing both the plan and report, the mission area's staff had to rely on data available in existing systems, both automated and manual. While GPRA seeks outcome measures and measures related to efficiency and effectiveness, our existing systems are primarily designed to account for the expenditure and collection of loan and grant funds. A conscious decision was made to not expend limited funds building new, or enhancing existing systems, solely to collect data for GPRA purposes. It was anticipated there would be numerous changes in the performance measures and indicators as the GPRA process matured and stabilized over time. Changes in the strategic plan, which is the base document for both the plan and report, due to changes in the direction of programs and priorities of new administrations, plus new legislation, will result in changes in the performance indicators. We are at the beginning of an evolutionary process and believe the correct approach is to be cautious in expending funds for GPRA purposes.

Rural Development recognizes there are problems with some of the systems used in preparing the plan and report, especially the Rural Community Facilities Tracking System, and those limitations were noted in the report as required. The audit notes the development of a new system, Rural Development Application Processing and Tracking System (RDAPTS). This system will generate more reliable data in the near future for the Business and Industry program and the Community Facility program. The development of Phase 1 of the revised Community Programs Application Processing and (CPAP) system will collect user and other information for the Water and Environmental programs. This phase is scheduled to be implemented in the fall of 2001.

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In the future, as new systems are built, and existing systems enhanced, the data needed for GPRA reporting will be a part of those efforts. While this approach will not result in immediate resolution of all of your concerns, we believe this is a sound management approach and will ensure the performance goals and indicators are reviewed and refined prior to the expenditure of funds for the capture of new, or better, data.

We disagree with OIG's characterization of the report as being of little or no utility. While there are problems with some of the values, we believe it is an honest depiction of the programs and adequate for analysis and general management purposes. In spite of the limitations on data noted in the report, it has been a source of information for agencies, the Department, and the Office of Management and Budget.

Following are our responses to the recommendations, and selected sections, of the report:

Recommendation No. 1: Document and implement a comprehensive strategy to ensure the collection and reporting of accurate, complete, and meaningful performance data and that documentation exists to support the established targets and the performance results included in the Annual Performance Report.

Response: We concur with this recommendation. Rural Development will form a committee composed of mission area staff to facilitate this effort. Having developed two annual performance reports at this point, and with the findings of this audit, we now have a better sense of the complexities involved in developing performance goals and measures. We are in a better position to develop a strategy and implement improvements in our collection and reporting processes than we would have been when the FY 1999 Plan and Report was prepared.

Recommendation No. 2: As part of the strategy to be developed in Recommendation No. 1, require at each level of the organization to attest to the accuracy of reported accomplishments in a written certification. If managers cannot attest to the accuracy, a written explanation of the reasons and proposed corrective action should be developed.

Response: Attestation letters were required of the Agency Administrators, the Deputy Administrator for Community Development, and the Deputy Administrator for Operations and Management for both the FY 1999 and 2000 Reports. While we have no problem with either of these individuals requiring an attestation letter from his/her staff, we feel the current level of required attestation is adequate.

Recommendation No. 3: Report the lack of an effective system of internal controls over performance reporting as a material weakness in the Federal Manager's Financial Integrity Act Reports until the quality of the Annual Program Performance Reports can be assured.

Response: Rural Development will evaluate whether or not the weaknesses identified by the audit warrant the reporting of a material weakness in the 2001 FMFIA Report. Rural Development believes that corrective actions planned will alleviate the materiality issue.

Recommendation No. 4: Establish and implement internal controls over the collection, calculation, and reporting of performance data in information and manual systems, including a process to verify and validate performance data, to ensure consistent reporting of accurate information in the Annual Program Performance Reports.

Response: We basically agree with the recommendation, with the caveat that absolutely accurate information cannot always be obtained at a reasonable cost, especially for those measures that are truly outcome oriented. If management understands the source of the data and has sufficient confidence in the information to use it for their purposes, then we feel it should be accepted as materially accurate and suitable for GPRA reporting.

The audit report cites several specific performance measures which were felt to be inaccurate. The agencies have reviewed these findings and, for those which it agreed were correctly identified, have taken appropriate action. For example, an error for the Telecommunications program is noted in determining the number of residents assisted. A multiplier was used with the total number of new subscribers, rather than just the number of new household subscribers. A similar problem occurred with the calculation of the number of residents benefiting from improved electrical service. Both of these errors have been corrected with a restatement of the indicator in the FY 2001 Plan.

Some of the inaccuracies could not be easily resolved and the performance indicators have been dropped from future reports. These include RUS' indicators related to the number of rural people served who previously did not have public water and the number of schools receiving transmission facilities for Distance Learning applications.

We disagreed with the finding for some of the indicators. For example, OIG disagreed with RUS' methodology for calculating the amount of funds leveraged from private sources for its Telecommunications program. RUS based the calculation on the amount of funds advanced in FY 1999 and OIG based its calculation on the amount of those funds obligated during the year.

The report notes that RUS has established a task force to formalize its performance measurement process. RHS will form a similar task force, as a subcommittee of the mission area committee mentioned in Response 1 above. The Rural Business Cooperative-Service currently has a task force of program managers and staff who deal with GPRA issues and they will use that forum for addressing the recommendations of the audit. These task forces will review the wording and processes for measuring the performance indicators and develop and recommend improved methods of verifying performance data to ensure consistent reporting of accurate information.

Recommendation No. 5: Ensure performance indicators used are appropriate to show progress in achieving the goals they were intended to measure.

Response: The task forces previously mentioned will evaluate the performance indicators to ensure that they appropriately measure the goals they are intended to measure. Some specific measures are already being changed: e.g., the indicator used by RHS to measure change in occupancy of multi-family housing each year. The new indicator will be the change in the number of tenant households occupying multi-family housing.

OIG questioned the relevance of performance indicators related to the number of jobs created for several of our programs. While we agree this measure seems slightly out of place with the performance goal it is linked to, that linkage actually occurs in the mission area's Strategic Plan 1997-2002 and continues in the Long-Range Plan published in September, 2000. We do, however, believe this measure is a valuable tool in assessing program benefits to rural America and should be continued. Resolution of the linkage problem will need to await the next revision of the mission area strategic plan.

Recommendation No. 6: Use clear, unambiguous language that is properly descriptive and consistently applied in the development of performance indicators and ensure the intent of the indicators is fully explained to the reader.

Response: The task forces previously mentioned will examine the language used to describe performance indicators and ensure that indicators are clearly defined and understandable to the reader.

Recommendation No. 7: Ensure performance goals and indicators that address RD's management challenges are included in the annual performance plans and annual performance reports to show progress in meeting the challenges.

Response: The General Accounting Office or OIG has identified three major management challenges in Rural Development -- problems related to the management of rural rental housing projects; concerns about large past write-offs of electric loans; and difficulties related to the implementation of credit reform. At least one performance indicator for each of these challenges is included in the FY 2001 and 2002 Annual Performance Plan. The 1999 Annual Performance Report contained two performance indicators related to credit reform.

The audit specifically cited RHS' management challenge of fraud and abuse in its rural rental housing program. RHS has taken many positive actions to eliminate fraud and abuse in this program including requiring routine physical inspection of each property to determine the extent of health and safety, routine maintenance and fiscal problems. RHS has in place a loan classification system to categorize borrowers according to the quality of their performance. In addition, RHS can pursue successful prosecution of program abusers through criminal and civil actions as a result of recently enacted legislation. It is the opinion of RHS that oversight and management of the rural rental housing program at the present time is sufficient to keep fraud and abuse to a minimum, if not eliminate abuses entirely.

Recommendation No. 8: Ensure that outcome-oriented performance indicators included in the Management's Discussion and Analysis (MD&A) section of Rural Development's consolidated financial statements relate to significant agency goals and are supported by accurate performance results.

Response: We agree that more outcome-oriented performance indicators should be included in the MD&A section of Rural Development's consolidated financial statements. DCFO staff will participate with the Rural Development committee to be formed on GPRA implementation and work closely with the mission area program managers to identify those vital, few supportable indicators that management believes best describe the success of their programs. These indicators will be identified by September 30, 2001, so they can be included in the MD&A for the FY 2001 financial statements. However, we wish to point out that the outcomes associated with the indicators may not be available for reporting in the FY 2001 MD&A. The associated outcomes may have to be collected during FY 2002 and reported in the MD&A for the FY 2002 financial statements.

Recommendation No. 9: Establish controls to ensure that accurate performance indicators are included by requiring high-level program managers to certify to their accuracy and that validation efforts were conducted.

Response: We agree and will revise the Management Representation Letter prepared in conjunction with the FY 2001 financial statements to include a representation that the reported program and financial indicators are consistent with information on major goals and objectives from the agency's strategic plan, and that there are no material misstatements or omissions in the amounts reported.